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News

Philip Morris tries to ensure a good burley supply

By JOHN FRIEDLEIN

HARDIN COUNTY — Philip Morris USA increased burley production incentives threefold this month after its December offer received a cool reception from growers and the industry received a troubling supply outlook.

The company's move will help offset a steep drop in prices that came when the government quota system ended, but also sends a signal to growers that the area's largest leaf buyer still needs high-quality, domestic tobacco.

It also is a sign that too many farmers bailed on burley after the government quota buyout, experts say. Other tolls on production include a lack of dependable labor, low yields and high input costs.

To get a feel for what it takes to profit from tobacco, think in pennies.

Last year, with the beginning of the contract system, the price per pound fell 40 to 45 cents below the 2004 price of $2 per pound.

The incentive program Philip Morris introduced in December would have, when averaged out, added 4 cents a pound at most, said Will Snell, a tobacco economist for the University of Kentucky. It was not the 10- to 15-cent increase growers wanted.

"I think (the new incentives are) very good news," Snell said.

Company spokesman Bill Phelps said he thinks the incentive increase will be enough for his company to meet its needs, and it will be attractive to growers.

Most local growers contract with Philip Morris, which receives burley at Bale Tobacco Marketing in Elizabethtown. Representatives plan to meet there with farmers on Monday.

Snell doesn't expect those who quit growing tobacco to rush back in. More likely, some who stuck with it will expand acreage.

Too much excitement about incentives, though, could flood the market, Snell said.

Other problems could arise. For instance, it may be difficult for growers to find seedlings because greenhouse production already was under way when Philip Morris made its announcement, said Rod Grusy, Hardin County Extension agent.

Burley plants start as seedlings in greenhouses before growers set them in the ground. Jacobi's Greenhouse in Sonora has seen an increase in requests for seedlings but expects to be able to meet demand, said Diana Jacobi.

Ray Mackey of Glendale said most growers already have decided how much to grow. Producing more could lead to problems.

"The tobacco barns are the limiting factor," Mackey said.

But money from incentives could address that problem in the future. Mackey's son, Ray Allen, said the bonuses may spur him to build or improve a tobacco storage barn.

Elizabethtown grower Larry Thomas plans to set the same acreage as last year.

"I'm growing what I've got the barn room for," he said. "And that's about what we can handle laborwise."

While Thomas won't expand production, he's glad to see incentives. "I think it's a really good sign," he said.

In addition to boosting two incentive programs announced in December, Philip Morris added a third.

One of the enhanced incentives will go to those who fulfill 2006 contracts or deliver the amount of last year's contract, Philip Morris told growers. The bonus increased from 2 cents per pound to 6 cents.

The other incentive also tripled bonuses. The revision starts at 18 cents for this year's pounds that fall between 100 and 105 percent of 2005 contracts. At the high end, pounds between 120 and 125 percent of last year's contract will earn growers 30 cents a pound.

The new incentive program gives an extra 3 cents per pound to growers who sign contracts before April 15.

Grusy is encouraged by Philip Morris' increases.

"It means they still want Kentucky tobacco," he said. "They're willing to go the extra mile."

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